

Message Text

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TO AMEMBASSY KINSHASA
INFO AMEMBASSY PARIS
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AMEMBASSY TOKYO
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E.O. 11652: N/A

TAGS: EFIN, CG

SUBJECT: PARIS CLUB MEETING ON ZAIRE

1. ATTACHED IS A COPY OF THE USG POSITION PAPER FOR PARIS CLUB MEETING (NOV. 30 - DEC. 1) ON ZAIRE AS IT WILL BE PRESENTED TO THE NATIONAL ADVISORY COUNCIL NOV. 22 FOR NAC APPROVAL.

A) BACKGROUND

THERE HAVE BEEN PARIS CLUB AGREEMENTS FOR ZAIRE IN 1976 AND 1977. IN THE 1977 AGREEMENT, CREDITORS AGREED TO LIMITED OFFICIAL USE

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MEET IN NOVEMBER TO TAKE UP THE MATTER OF 1978 MATURITIES. THEY STRESSED THAT ZAIRE'S ABILITY TO CONCLUDE COMPARABLE ARRANGEMENTS WITH PRIVATE CREDITORS WOULD BE A DETERMINING FACTOR IN ANY DECISION TAKEN AT THE NOVEMBER MEETING.

THERE IS LITTLE DOUBT THAT ZAIRE WILL REQUIRE A RESCHEDULING AGREEMENT COVERING 1978 MATURITIES. WHILE PRECISE

ESTIMATES OF ZAIRE'S BALANCE OF PAYMENTS ARE NOT AVAILABLE, ALL INDICATIONS ARE THAT ZAIRE'S EXTERNAL POSITION WILL BE AT LEAST AS BAD -- AND PROBABLY WORSE -- THAN IN 1977.

IT WILL BE DIFFICULT, HOWEVER, TO REACH AN AGREEMENT AT THE NOVEMBER PARIS CLUB MEETING. ZAIRE IS STILL IN THE

PROCESS OF NEGOTIATING WITH THE PRIVATE BANKS AND EVEN IF A SETTLEMENT IS REACHED PRIOR TO NOVEMBER 30, THERE WILL NOT BE ADEQUATE TIME FOR CREDITORS TO EVALUATE FULLY WHETHER THE SETTLEMENT SATISFIES REQUIREMENTS ON COMPARABILITY.

MOREOVER, ZAIRE'S PERFORMANCE UNDER THE CURRENT IMF STABILIZATION PROGRAM HAS BEEN DISAPPOINTING. ALTHOUGH DATA FOR 1977 ARE POOR, IT APPEARS THAT THE BALANCE OF PAYMENTS SHORTFALL FOR THE FIRST NINE MONTHS OF 1977 WAS ABOUT \$200 MILLION SDR. THIS CONTRASTED WITH AN IMF TARGET OF A \$50 MILLION SDR DEFICIT. PART OF THE REASON CAN BE ATTRIBUTED TO FACTORS BEYOND THE CONTROL OF THE GOZ (I.E., THE DELAY IN PRIVATE BANK IMPLEMENTATION OF THE LONDON AGREEMENT, AND THE FALLING PRICE OF COPPER) BUT OTHER FACTORS (SUCH AS THE NON-REPATRIATION OF EXPORT RECEIPTS) ARE DIRECTLY ATTRIBUTABLE TO THE GOZ. AN EFFECTIVE STABILIZATION PROGRAM WILL REQUIRE RENEWED GOZ EFFORTS TO LIMIT BUDGET EXPENDITURES (BY CURBING OVERRUNS), IMPROVE REPATRIATION OF EXPORT RECEIPTS) AND REDUCE PAYMENTS ARREARAGES. LIMITED OFFICIAL USE

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IMF NEGOTIATIONS WITH ZAIRE HAVE BEEN ADJOURNED UNTIL THE UNCERTAINTIES REGARDING ZAIRE'S PERFORMANCE, INCLUDING AGREEMENT WITH PRIVATE BANKS ARE CLARIFIED.

B) USG POSITION FOR PARIS CLUB MEETING

THE USG SHOULD HAVE THREE BASIC OBJECTIVES FOR THE NOVEMBER 30 - DECEMBER 1 PARIS CLUB MEETING: (1) TO REITERATE THE IMPORTANCE WE ATTACH TO ZAIRE REACHING A "COMPARABLE" ARRANGEMENT WITH THE PRIVATE BANKS; (2) TO STRESS THE LINKAGE NOTED IN THE TWO EARLIER AGREEMENTS BETWEEN AN IMF ENDORSED PROGRAM, AND A FINAL PARIS CLUB ACCORD; (3) TO LAY THE GROUNDWORK FOR A 1978 AGREEMENT WHICH WOULD REALISTICALLY REFLECT ZAIRE'S CRITICAL FINANCIAL POSITION.

EVEN IF ZAIRE SHOULD CONCLUDE AN AGREEMENT WITH THE PRIVATE BANKS PRIOR TO THE PARIS CLUB MEETING, THE USG POSITION IS THAT IT IS PREMATURE TO AGREE TO THE TERMS OR SCOPE OF AN AGREEMENT COVERING 1978 MATURITIES. PRIOR TO SUCH AN AGREEMENT ON 1978 MATURITIES WE WOULD HAVE TO BE SATISFIED BOTH AS TO THE COMPARABILITY OF ANY PRIVATE CREDITOR AGREEMENT, AND ZAIRE'S ADHERENCE TO AN IMF ENDORS-

ED STABILIZATION PROGRAM. HABIB

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Disposition Approved on Date:
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Disposition Date: 22 May 2009
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